Statement by John Felmy, Chief Economist, American Petroleum Institute
House Energy and Commerce Subcommittee on Energy & Air Quality
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I am John Felmy, chief economist of API, the national trade association of the U.S. oil and natural gas industry. API represents nearly 400 companies involved in all aspects of the oil and natural gas industry, including exploration and production, refining, marketing and transportation, as well as the service companies that support our industry.

API believes it is important to address global climate change and manage greenhouse gas emissions. We are committed to working with members of Congress on policies that are environmentally effective, economically sustainable and fair. Good policies can help contain costs and enhance our competitiveness while tackling the hard issue of greenhouse gas emissions.

We all have a role to play addressing the climate change challenge, and the U.S. oil and natural gas industry has been trying to do its part. Companies have invested in alternative fuels and refinery efficiency improvements, which has reduced emissions. Working with EPA and others, they've reduced natural gas flaring and virtually 100% of the natural gas produced by API members is from companies participating in EPA's Natural Gas STAR program. Through API, they've developed a suite of tools for estimating and tracking emissions, without which any progress will be hard to measure. And, for many years now, they've been building experience capturing and storing CO_2, boosting domestic oil production in the process and reducing our reliance on imports.

Between 2000 and 2006, the U.S. oil and natural gas industry invested $42 billion in carbon mitigation technologies, more than either than the federal government or all other businesses and industries combined. Nearly $3.5 billion of that was in non-hydrocarbon technologies, including wind, biomass, solar and geothermal.

One climate change proposal that was considered by the Senate earlier this month fell short of meeting what we believe are the essential criteria for a robust, cost-efficient national policy for long-term reductions in greenhouse gases. These criteria include balancing reasonable cost burdens; encouraging low-carbon technologies; providing a uniform national policy; and finding the most cost-effective ways to reduce emissions without choosing winners and losers.

For example, the Lieberman-Warner bill would have imposed disproportionate costs on the supply of natural gas, gasoline, diesel, aviation fuel, and other petroleum products such as heating oil. This is the consequence of providing only three percent of the needed emission allowances for the fuels and natural gas sectors while granting some other sources of emissions as much as 300 percent of their needed allowances.

These costs would have helped raise consumer prices, according to analyses by the U.S. Energy Information Administration and the Congressional Budget Office. And

they would have seriously affected natural gas supplies and fuel production. A study by ICF International commissioned by API estimates the legislation would have reduced natural gas supplies by 12 percent and driven overseas some three million barrels per day or 17 percent of our refinery capacity. The shift in refinery capacity would also have meant lost jobs. A Wood Mackenzie study estimates greater reductions in natural gas supplies.

The projected fall in natural gas supplies is troubling. Natural gas is relatively clean-burning. It produces barely half the greenhouse gas emissions of coal. A rational climate change policy should encourage more use of natural gas, not less. Indeed, the legislation, while at the same time it could reduce supplies, would also have spurred demand for natural gas, according to a recent Natural Gas Council study.

The shifting of refinery capacity overseas also would have meant exporting rather than controlling some emissions.

From our review of the Lieberman-Warner bill, we've identified additional shortcomings:

It fails to establish a uniform national policy that coordinates with other legislation, federal and state, to reduce redundancy and inefficiency. For example, it fails to safeguard against potentially triggering overlapping federal regulations for greenhouse gases under the Clean Air Act, NEPA, and the Endangered Species Act.

It locks into an inflexible 40-year schedule of allowance allocations that fail to allow for mid-course corrections.

And, it does not provide a sufficiently transparent signal of all the costs, which weakens the impact on consumer behavior.

In short, a sound approach to managing greenhouse gas emissions that involves investment, equitable costs, consistent policies and understandable signals still remains to be advanced. We hope to work with all of you and your colleagues to help make that happen.

That concludes my remarks. I'd like to submit for the record two studies API commissioned on supply-side impacts of legislation and a report on investments into climate mitigation technologies. I would be happy to answer your questions.